

The Dream of a World Currency

Interview to Tommaso Padoa-Schioppa

by Alberto Orioli

To commemorate the first anniversary of Tommaso Padoa-Schioppa's death, we publish here an interview he delivered to the Italian newspaper Il Sole-24 Ore in 2009 (10th June), which illustrates the most ambitious project he pursued during the last years of his life¹.

Rules and currency. As a former central banker, Tommaso Padoa-Schioppa (1940-2010) keeps a "long view" on these two bastions, the foundations of market economy. "Long" because – as he asserts in the book he wrote with Beda Romano, *The Short View* – the exact cause of the present situation is precisely the shortsightedness of markets, politicians, consumers, shareholders.

Let's begin from the euro. With your long view, how do you see it?

If the crisis will lead to a massive shifting in the composition of reserves and to a strong weakening of the dollar, the euro would appreciate too much; for Europe it would then be a problem, a great problem.

Thus the lesson for the future is a new single currency, as China is asking for?

Not only China is asking for it. Robert Mundell, one of the most subtle economic minds of our time, and Paul Volker, a very authoritative American former central banker, have been talking about it for a long time. I am persuaded that China has raised a by-now mature topic. Maybe it has done so for its own interest – as Paul Krugman says – that is, because it has accumulated too many dollars. In any case it is a legitimate reason, given that we cannot ask Beijing to be altruistic,

when anybody else acts in his own interest. The point, instead, should be to understand whether the Chinese national interest and the global general interest coincide. In any case, as a former central banker, I think that when you talk about global standards, you should first think about monetary standards and then about legal ones, because that is a functional economic fact, even though it rests on a legal base. In other words, I do think that this crisis poses the problem of a new international monetary standard. Its absence and the absence of the discipline that it would impose are one of the deep reasons of the present crisis.

Once the currency was pegged to gold...

If that peg still existed, in the last years the countries that were accumulating big external deficits – such as the United States – should have had to convert a part of it in gold; the consequent scarcity of gold reserves would have obliged them to change their course.

Or to denounce the agreement, as the US did when it unpegged the dollar from the yellow metal.

It is true, in 1971 the US shirked its commitment. For years the "airplane" of the dollar has continued to fly propelled by the economic and political strength of the United States. I do not think, though, that if we look at the world of tomorrow, when there will be four, five or six global giants, they could accept that the currency of one of them could be the currency of all of them. Even if the topic is not yet on the agenda, when you talk about international standards I think you should think about a global currency.

But how would the world look like with a single currency?

I do not know, it is a project on which it is urgent to work and think deeply, and I doubt that the solution is a single currency. It is a different thing to imagine an object able to fly or to invent the airplane. Today we know enough to say that we need an object able to fly, a common measure which imposes discipline to the international monetary system. On the global scale I do not think that a solution similar to the euro could be practicable, i.e. something based on the model of a single currency – a “globus”, for example – and of a single central bank. Rather I envisage a system on two levels: a global standard with a common governance and regional currencies with exchange rates that will no longer be entirely left to the market.

Who is right between Krugman, who asks for more debt to overcome the crisis, and Ferguson, who warns against the dangers of an excess of debt which undermines governments' stability?

Both and, when they call each other wrong, none of them. The fact is that the remedies – both monetary and budgetary – to face the emergency and those to avoid that a new crisis arises, have opposite signs: expansive the former, restrictive the latter. It is similar to the case when methadone is administered to a drug addict in order to cure him.

Do you think that the G-8 should draft the new global legal standards for the financial markets? Could it be a tool to begin to overcome the crisis and to avoid future ones?

The deep causes of the crisis are three: the illusion that markets can self-regulate themselves; the contradiction between global markets and policies remained national; and shortsightedness as a criterion for public and private choices. The global legal standards concern the first two topics and stem from the idea that the market needs some rules and that the rules shall be international. But this is not the whole problem, here it just begins:

who decides on the rules? And which tools does he have in order to enforce them? Here arises the difficult question of a higher power on political economy.

Today that power does not exist.

Yes and no. The whole universe of international cooperation has shifted in recent times towards voluntary and not binding actions, most of all from the moment we abandoned the Bretton Woods system, which was a supranational power, even though feeble. First the G-5, then the G-7 and G-8 and now the G-20: behind these acronyms there is no institutional reality, no treaties, no juridical system. Talking about global legal standards in those contexts means mentioning something that for the time being is lacking any juridical and institutional infrastructure.

Waiting for a different model of global governance, which is the best venue where to reshape the rules?

A strong political convergence in the G-20 is a necessary but not sufficient step towards the new standards. That step must lead to changes concerning both the law and the distribution of power between the national and international levels, changes that are impossible to achieve outside a clear institutional architecture and without a basis created by international treaties.

Does the G-20 represent a progress compared with the G-8?

I have been in the G-20 since its constitutive meeting. You really feel like being at a table with the whole world, in a sufficiently small meeting to allow for an effective interaction among the participants. The other meetings, with 200 countries represented, are assemblies where there are only declarations and there is no interaction between the participants. Moreover, thanks to its composition, the G-20 handles also commercial matters, which are an essential part of international cooperation; the G-8 could not profitably do it because in

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this subject the interlocutors should be above all the emerging or low-income countries. Finally, it is a positive fact that in the G-20 participate the heads of state or government, because only at that level is a political synthesis possible; the finance ministers are not given enough power.

Also the G-20 decisions do not have any juridical infrastructure. Then there are the IMF, the World Bank and the WTO which count.

The G-20 should find a kind of confluence in the institutions that until now constitute the pillars of international cooperation: IMF, World Bank, WTO and the UN itself. They are the best legacy that we have – since the 1940s – from the historical experience of the 20th century. When the Chancellor Angela Merkel proposes a Security Council for the economy, she expresses precisely the need to direct the political decisions of the G-20 in institutions that have got a more solid juridical infrastructure than the occasional convergence of goodwill that, in a forum of voluntary cooperation, could always fade away. As it is well-known, the G-20 agreements are reversible and need the agreement of all of the participants.

Let's go back to rules. How much influence on the crisis had the conflicts of interest between regulators and regulated, between controllers and controlled?

Extremely great. In this case rules were either nonexistent or too feeble, because the rules were written by those whom they were to be applied to. Whenever the internal models on which the evaluation is based are not rigorous and the public authority which validates them trusts too much the way they are done or does not understand them, then there is a problem. If in turn those same models rest on the ratings of agencies which are paid by the same people who issue the securities they have to judge, then there is a problem. If the rules on the managers' wages are made by those same managers or approved by committees that do

not keep any distance between them and the people for whom they determine the wages, then there is a problem. In sum, in that way the whole system does not have any helm.

And here comes the topic of shortsightedness?

Yes, all of the anomalies we talked about until now are ascribable to the topic of the shortening of time horizons: instead of looking ahead, the rating agencies look at the market mood of the moment; wages are linked to short-term targets; economic policies are linked to the electoral timings which oblige the economy to be always effervescent. If only there was something that would simply oblige, even using the same decisional criteria, to pass from the quarterly wavelength to that of one or two five-year periods, everything could stay the same, but everything would change for the better.

Today it seems impossible.

I certainly realize it. And yet the US President Barack Obama has engaged precisely in this difficult art of persuading a nation of how necessary it is to extend the time needed to overcome the crisis and to have lasting results. At present (June 2009) the surveys are supporting him.

The European elections seem to demonstrate that nationalist and anti-European parties are gaining strength. There is the risk of entrenchment and of new nationalisms.

Unfortunately the entrenchment is already taking place. If it is true that hypocrisy is an homage that vice pays to virtue, the fact that we are seeing so much of it these days in the debates on banks and automobiles, the two sectors that have been more severely hit by the crisis until now, gives us an idea about the vice beneath. The more the declarations about European cooperation increase, the less cohesion there is.

Thus a smaller Europe?

I believe that Europe is on a crest. It is pulled

by two opposing forces: those who want to increase the amount of union and those who want the re-nationalization of policies and economy. The match is open, even if now the disintegrating forces are prevailing. I am convinced that the crisis will lead to a different Europe, because it is too strong for the actual state of semi-integration.

And the political Europe?

What could be done for the unification that is not political has been done: but creating a political Europe would have a formidable economic effect and certainly would also

help overcome the crisis, because it would allow to govern the economic policy in a joint, new and unitary way. It would be sufficient to acknowledge in a common budget what is already European (some infrastructures, part of the energy, part of the defense). After all, the US federal budget at the beginning of the 20th century, a hundred years after the creation of the American federation, amounted to 5% of the US GDP. It would be necessary that also the national powers accept to become smaller in a bigger reality. The Europe I imagine is exactly that one.

Translated by *Roberta Carbone*

¹See Alfonso Iozzo, "In Memory of Tommaso Padoa-Schioppa", *The Federalist Debate*, Year XXIV, Number 1, March 2011

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